

Message Text

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43

ACTION EB-03

INFO OCT-01 AF-04 ARA-09 EUR-09 EA-07 NEA-06 IO-03 ISO-00

AGR-03 CEA-01 CIAE-00 COME-00 DODE-00 FRB-01 H-01

INR-09 INT-01 L-02 LAB-01 NSAE-00 NSC-07 PA-01 RSC-01

AID-05 CIEP-01 SS-14 STR-01 TAR-01 TRSE-00 USIA-04

PRS-01 SP-02 FEAE-00 OMB-01 SWF-01 XMB-01 DRC-01 /103 W

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R 071400Z OCT 74

FM USMISSION GENEVA

TO SECSTATE WASHDC 8621

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BOGOTA

AMEMBASSY BRASILIA

USMISSION EC BRUSSELS

AMEMBASSY BUENOS AIRES

AMEMBASSY CANBERRA

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY THE HAGUE

AMEMBASSY HELSINKI

AMEMBASSY KUALA LUMPUR

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY MEXICO

AMEMBASSY NEW DELHI

AMEMBASSY OSLO

AMEMBASSY OTTAWA

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY PRETORIA

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY TOKYO

AMEMBASSY WELLINGTON

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AMEMBASSY KINGSTON

AMEMBASSY LAGOS
AMEMBASSY MADRID
AMEMBASSY QUITO
AMEMBASSY VIENNA

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E.O. 11652: N/A

TAGS: ETRD GATT

SUBJ: MTN WORKING GROUP 3(B): DISCUSSION OF BRAZILIAN PAPER ON
EXPORT SUBSIDIES AND COUNTERVAILING DUTIES

1. SUMMARY: LIVELY AND OCCASIONALLY WITTY MEETING WAS CHARACTERIZED BY USEFUL EXCHANGE OF VIEWS ON ISSUES RAISED IN BRAZILIAN PAPER, RESULTING IN GENERAL CONSENSUS TO KEEP BRAZILIAN PAPER ON TABLE AND TO CONSIDER GENERAL RULES AND POSSIBLE DIFFERENTIATED TREATMENT FOR LDC'S IN PARALLEL DURING MTN. THERE WERE SOME ENCOURAGING INDICATIONS THAT A FEW KEY LDC'S CONSIDER QUESTION OF RULES TO GOVERN LDC USE OF SUBSIDIES OPEN FOR NEGOTIATION. FOR MOST PART POLEMICS WERE AVOIDED, AND NO REFERENCES WERE MADE TO RECENT U.S. COUNTERVAILING ACTIONS. END SUMMARY

2. BRAZILIAN PAPER (MTN/W/5) WAS HAILED BY HARDLINE LDC'S (INDIA, JAMAICA, MALAYSIA, NIGERIA) AS CLEAR STATEMENT FOR DIFFERENTIAL TREATMENT WHICH WOULD PERMIT LDC EXPORT SUBSIDIES WITHOUT ANY THREAT OF COUNTERVAILING DUTIES. HOWEVER, IT APPEARED THAT SOME IMPORTANT LDC'S (ARGENTINA, SPAIN, MEXICO, ECUADOR) ALSO SAW PAPER AS OPENING TO PURSUE MORE MODERATE SOLUTION THAT WOULD IMPOSE SOME OBLIGATIONS ON DEVELOPING COUNTRIES. BRAZIL SHARED THIS MODERATE VIEW.

3. US. REP (KELLY) REITERATED US WILLINGNESS TO EXPLORE POSSIBLE DIFFERENTIAL TREATMENT FOR DEVELOPING COUNTRIES IN CONTEXT OF COMPREHENSIVE CODE THAT COVERS SUBSIDIES AND COUNTERVAILING DUTIES ON BOTH INDUSTRIAL AND AGRICULTURAL PRODUCTS. HE STRESSED THAT RULES OF GENERAL APPLICABILITY SHOULD BE PURSUED IN PARALLEL WITH CONSIDERATION OF DIFFERENTIAL TREATMENT. HE POINTED OUT THAT LDC'S HAVE IMPORTANT LIMITED OFFICIAL USE

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INTEREST IN RULES GOVERNING EXPORT SUBSIDIES BECAUSE, INTER ALIA, (1) RULES ON SUBSIDIES WOULD PROTECT LDC EXPORTS FROM BEING DISADVANTAGED BY SUBSIDIZED PRODUCTS OF DEVELOPED COUNTRIES IN LDC EXPORT MARKETS, AND (2) WITHOUT RULES LDC'S WITH RELATIVELY GREATER RESOURCES MAY GAIN SIGNIFICANT ADVANTAGES OVER OTHER LDC'S. FURTHERMORE, EXPORT SUBSIDIES MAY NOT BE IN LDC INTEREST BECAUSE THEY INVOLVE A TRANSFER OF REAL INCOME FROM THE TAXPAYERS OF

DEVELOPING COUNTRIES TO CONSUMERS IN DEVELOPED COUNTRIES, WHICH AMOUNT TO A REVERSE FOREIGN AID PROGRAM. REGARDING PROPOSED BRAZILIAN STANDSTILL ON COUNTERVAILING DUTIES, USREP SUGGESTED ALTERNATIVE STANDSTILL ON SUBSIDIES WHICH WULD OBVIATE NEED FOR COUNTERVAILING DUTY STANDSTILL.

4. EC, CANADA, JAPAN, SWEDEN, AND AUSTRIA SUPPORTED U.S. VIEW ON PARALLEL PROGRESS. JAPAN AND SWEDEN SUGGESTED THAT COUNTERVAILING QUESTION WAS CLOSELY RELATED TO ISSUE OF NEW MULTILATERAL SAFEGUARD MECHANISM.

5. LDC'S STATED THAT ALTERNATIVE TO SUBSIDIZED INDUSTRY WAS NO INDUSTRY AT ALL, THAT DC'S SHOULD NOT WORRY ABOUT LDC SUBSIDIES IF THEY WERE NOT HURT BY THEM, AND THAT SUBSIDIES WERE NECESSARY TO OVERCOME HANDICAPS AND ATTRACT FOREIGN INVESTMENT. SOME LDC'S EXPRESSED CONCERN ABOUT COMPETITIVE SUBSIDIZATION IN THIRD-COUNTRY MARKETS, PARTICULARLY SUBSIDIZATION OF PRIMARY PRODUCTS BY DEVELOPED COUNTRIES.

6. SWITZERLAND SUGGESTED, AS ALTERNATIVE TO APPROACH IN BRAZILIAN PAPER. THE ESTABLISHING OF CONSULTATIVE BODY TO DETERMINE IN ADVANCE IF PROPOSED SUBSIDIES WOULD BE APPLIED TO OVERCOME LDC HANDICAP. IF SUCH DETERMINATION WERE MADE, SUBSIDY WOULD BE PERMITTED FOR A SPECIFIC PERIOD WITHOUT IMPOSITION OF COUNTERVAILING DUTY.

7. EC(ABBOT) WAS UNUSALLY AMICABLE VIS-A-VIS US ON COUNTERVAILING QUESTION, BUT REPEATED RITUAL OF STATING THAT AGRICULTURAL SUBSIDIES SHOULD BE DISCUSSED IN GROUP 3(E). IN RESPONSE TO SPANISH QUESTION OF WHETHER LOWER COUNTERVAILING DUTIES SHOULD APPLY TO LDC AS OPPOSED TO DEVELOPED COUNTRIES EXPORTS, EC MADE ANALOGY THAT MAN LIMITED OFFICIAL USE

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BEING ATTACKED WILL DEFEND HIMSELF WHETHER ATTACKER IS RICH DRUNK OR STARVING PEASANT. THIS TOUGH STANCE, AS WELL AS ATTITUDE TOWARD U.S., MAY BE EXPLAINED BY INFORMATION RECEIVED INFORMALLY FROM EC COMMISSION (BESELER) THAT EC NOW CONSIDERING POSSIBLE COUNTERVAILING ACTION AGAINST BRAZILIAN FOOTWEAR.

8. BRAZILIAN DEL MADE WELL-TEMPERED RESPONSE TO QUESTIONS RAISED, SUPPORTED PARALLEL APPROACH, AND EMPHASIZED NEED TO LINK GATT ARTICLES VI AND XVI. IN RESPONSE TO CRITICISM OF PROPOSED LIST OF ALLOWABLE LDC SUBSIDY PRACTICES, BRAZIL MAINTAINED SUCH A LIST WAS "WORKING HYPOTTHESIS" AND ITEMS ON LIST, LEVELS OF SUBSIDY, AND PRODUCTS INVOLVED, COULD BE BASIS OF NEGOTIATIONS. BRAZIL SUPPORTED ARGENTINE VIEW THAT SUBSIDIES BE PERMITTED ON GSP ITEMS TO EXTENT MFN

TARIFF REDUCTIONS REDUCE PREFERENCE MARGINS. IN COUNTER-
ING US SUGGESTION THAT UNDER BRAZILIAN SCHEME BENEFITS
MIGHT ACCRUE UNEVENLY AMONG LDC'S, BRAZIL POINTED TO WIDE
LDC SUPPORT SIMILAR PLAN HAS IN UNCTAD.

9. GROUP ADOPTED REPORT TO TNC WHICH REFLECTS GENERAL
AGREEMENT THAT CONSIDERATION OF DIFFERENTIATED TREATMENT
FOR DEVELOPING COUNTRIES ON SUBSIDIES AND COUNTERVAILING
DUTIES SHOULD PROCEED IN PARALLEL WITH RULES OF GENERAL
APPLICABILITY. IT WAS ALSO AGREED THAT BRAZILIAN
PROPOSALS SHLD REMAIN ON THE TABLE FOR FURTHER DISCUSSION
AFTER REVISION TO TAKE ACCOUNT OF POINTS MADE AT MEETING. DALE

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